

# Congress of the United States

## Joint Economic Committee Minority

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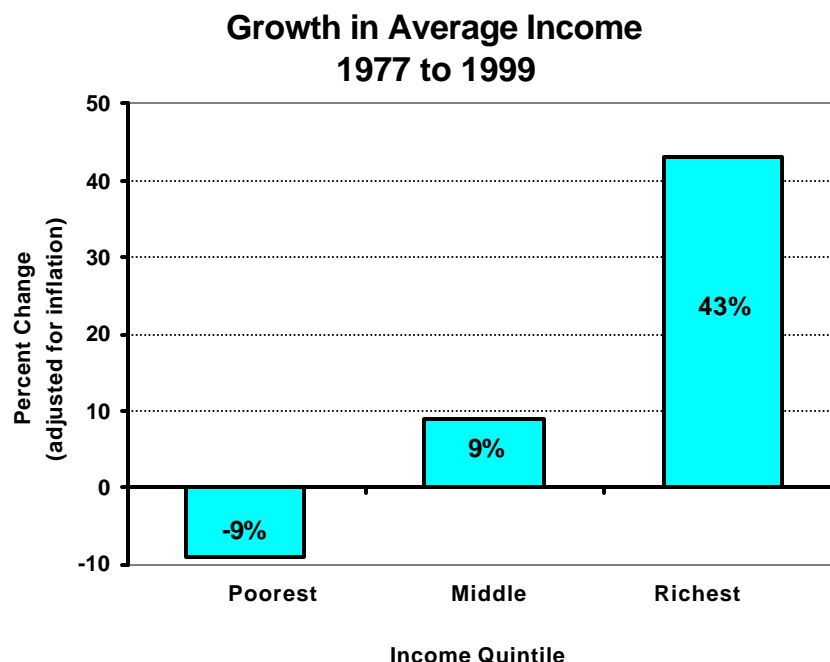
### The Growing Gap Between the Wealthy and the Rest of Americans

Dear Colleague:

The US economy is experiencing an unprecedented period of prosperity. Unemployment remains low, and there are few signs of a resurgence of inflation. After decades of budget deficits, the government is currently operating in surplus. Interest rates are low and investment is booming. Yet despite this favorable performance, the income gap between the wealthy and the rest of working Americans continues to grow. This growing income disparity can have both economic and social consequences.

Given the importance of this development, I want to call your attention to a recent study, *The Widening Income Gulf*, prepared by the Center on Budget and Policy Priorities, one of the country's most respected non-profit think tanks. Their analysis is based on data released this summer by the Congressional Budget Office.<sup>1</sup> Among its major findings:

- After adjusting for taxes (including the Earned Income Tax Credit), the top 20 percent of US households experienced a 43 percent increase in average income from 1977 to 1999. At the same time, the average income of the lowest 20 percent *declined* by 9 percent.



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<sup>1</sup> The CBO data begins with 1977 and ends with 1999 projections.

- The richest one percent of Americans -- 2.7 million people -- took home as much after-tax income as the lowest 38 percent -- or 100 million people -- ***combined***.
- From 1977 to 1999, the *increase* in income of the top one percent equaled the ***total*** income of the lowest 20 percent in 1999.
- In 1977, the top one percent of Americans received 7.3 percent of all national after-tax income; it is expected to be 12.9 percent for 1999.
- On average, the richest one percent of households paid a smaller percentage of their 1999 income in taxes than they would have under 1977 tax rates. This amounted to an average saving of \$40,000 per household.

Comparing the increase in income *before* taxes to the increase *after* taxes for the richest Americans illustrates the perverse impact of federal tax policy over the last 20 years. For example, average before-tax income increased by 96 percent between 1977 and 1999 for the top one percent of households, but their *after*-tax income grew by 115 percent. Keep in mind that all this occurred while the poorest fifth of households experienced a ***decline*** in their average income.

The foundation for this disparity was laid in the 1980s. There has been some improvement since then, but not enough. Most of the large income growth for the top 20 percent occurred from 1977 to 1989, when their average after-tax income increased by 33 percent, compared to 7 percent from 1989 to 1999.

Please contact the Center for Budget and Policy Priorities if you would like a copy of this study. Their telephone number is 408-1080 and the report is available on their website, <http://www.cbpp.org>.

Sincerely,

Pete Stark, MC  
Ranking Member